

This record is a partial extract of the original cable. The full text of the original cable is not available.

C O N F I D E N T I A L SECTION 01 OF 02 RANGOON 000764

SIPDIS

SENSITIVE

STATE FOR EAP/BCLTV, EB  
COMMERCE FOR ITA JEAN KELLY  
TREASURY FOR OASIA JEFF NEIL  
USPACOM FOR FPA

E.O. 12958: DECL: 06/17/2014

TAGS: [ETRD](#) [ECON](#) [PGOV](#) [BM](#)

SUBJECT: BURMA'S IMPORTERS TAKE ANOTHER BLOW

CLASSIFIED BY: COM CARMEN MARTINEZ FOR REASONS 1.4 (B,D)

1. (SBU) SUMMARY: A PLAN TO STICK IMPORTERS WITH HUGE NEW CUSTOMS EXPENSES IS PAR FOR THE COURSE. IT ADVANCES THE GOB'S DUAL ECONOMIC PRIORITIES -- RAISING REVENUE WITHOUT REFORMING THE DECREPIT TAX SYSTEM AND DISCOURAGING IMPORTS. THE IMPACT ON THE ECONOMY IS HARD TO PREDICT. FLOURISHING SMUGGLING AND UNDERINVOICING MAY NEGATE MUCH OF THE BURDEN, BUT THERE COULD BE SOME INFLATIONARY PRESSURES. END SUMMARY.

SMOOT-HAWLEY BURMA STYLE

2. (SBU) BURMESE AUTHORITIES HAVE INCREASED DRAMATICALLY THE COST FOR IMPORTERS BRINGING THEIR PRODUCTS IN LEGALLY. AS USUAL THERE WAS NO WARNING OF THIS MOVE AND NO OFFICIAL ANNOUNCEMENT OR EXPLANATION. HOWEVER, IMPORTERS TELL US THAT CUSTOMS OFFICIALS ON JUNE 15TH BEGAN ASSESSING DUTY FOR THEIR PRODUCTS AT AN EXCHANGE RATE OF 450 KYAT/\$. PREVIOUSLY THE RATE WAS 100 KYAT/\$. THUS, TO BRING IN A \$100 PRODUCT FACING, SAY, A 5 PERCENT TARIFF THE IMPORTER WOULD HAVE TO SHELL OUT 2250 KYAT (ROUGHLY \$2.40 AT THE BLACK MARKET RATE) IN DUTY RATHER THAN 500 KYAT (ABOUT 55 CENTS) UNDER THE PREVIOUS SYSTEM.

3. (SBU) ON TOP OF THIS, THE MINISTRY OF FINANCE HAS RAISED TENFOLD THE COMMERCIAL TAX, PAYABLE ON ALL IMPORTED ITEMS MEANT FOR RESALE EXCEPT FOR FIVE ESSENTIAL COMMODITIES. THIS TAX WAS REDUCED 90 PERCENT IN 1996 DURING THE LAST ADJUSTMENT OF THE CUSTOMS EXCHANGE RATE. IT HAS NOW BEEN RETURNED TO ITS 1996 LEVEL. THE OVERALL SITUATION FOR IMPORTERS HAS BEEN FURTHER EXACERBATED BY A 15 PERCENT DEPRECIATION OF THE KYAT OVER THE LAST MONTH (THUS INCREASING THE COST OF "EXPORT DOLLARS" NEEDED TO APPLY FOR AN IMPORT LICENSE).

4. (SBU) THIS NEW POLICY IS NOT ILLOGICAL (THE GOB NEEDS REVENUE AND IMPORTERS HAVE BEEN BENEFITING SINCE 1996 FROM A TAX BREAK AND AN EXCHANGE RATE FAR BELOW MARKET LEVEL) AND IT FITS WELL INTO THE GOB'S TWIN ECONOMIC "STRATEGIES" OF SEEKING NEW SOURCES OF REVENUE AND LIMITING IMPORTS. HOWEVER, IT BURDENS AN ALREADY TROUBLED SECTOR AND WILL DO LITTLE TO FIX LARGER SYSTEMIC PROBLEMS WITH REVENUE ENHANCEMENT. IN LIEU OF CREATING A FUNCTIONING INCOME TAX SYSTEM, AUTHORITIES HAVE IN RECENT MONTHS SOUGHT TO RAISE MONEY BY IMPOSING HUGE NEW CAR TAXES, SHAKING DOWN LOCAL AND FOREIGN BUSINESSES, AND ARE NOW EXPANDING CUSTOMS REVENUE WITHOUT RAISING TARIFFS. SIMILARLY, FOR SEVERAL YEARS NOW THE GOB HAS TRIED TO CONSERVE FOREIGN EXCHANGE AND PROMOTE IMPORT SUBSTITUTION INDUSTRIES BY STARVING THE ECONOMY OF IMPORTS -- THOUGH PREDICTABLY BANNED OR RESTRICTED IMPORTS FLOW FREELY OVER THE BORDER FROM THAILAND AND CHINA.

CRANKY CRONIES

5. (C) ACCORDING TO A WELL-CONNECTED BUSINESSMAN, WHEN HEARING OF THIS NEW POLICY -- ALLEGEDLY HATCHED BY TRADE POLICY COMMITTEE CHAIRMAN, AND SPDC NUMBER TWO, VICE SENIOR GENERAL MAUNG AYE -- THREE OF THE SPDC'S TOP BUSINESS CRONIES APPROACHED PRIME MINISTER GENERAL KHIN NYUNT TO COMPLAIN. APPARENTLY THE PM PROMISED TO RAISE THE ISSUE WITH BIG MAN SENIOR GENERAL THAN SHWE AT THE NEXT CABINET MEETING, BUT WOULD NOT COMMIT TO ANY FAVORABLE RESULT.

COMMENT: BLACK MARKET WILL SAVE THE DAY

6. (C) IT IS HARD TO PREDICT THE IMPACT ON THE ECONOMY OF THIS MOVE. WITH THE BANKING SYSTEM STILL IN TATTERS, BUSINESSPEOPLE WILL BE HARD PRESSED TO COME UP ON SHORT NOTICE WITH HUGE QUANTITIES OF KYAT TO PAY OFF THEIR LARGE NEW CUSTOMS LIABILITIES. HOWEVER SO MANY OF BURMA'S IMPORTS (PARTICULARLY CONSUMER GOODS) COME "DUTY FREE" VIA BLACK MARKET SMUGGLING OR THROUGH WIDESPREAD ABUSE HERE OF THE INTERNATIONAL DUTY FREE SYSTEM. THERE IS ALSO A LONG TRADITION OF UNDERINVOICING OF IMPORTS AND THEN SETTLING THE DIFFERENCE INFORMALLY VIA THE GLOBAL HONDI REMITTANCE NETWORK. THESE TWO MODALITIES WILL CERTAINLY BECOME MORE POPULAR TO EVADE THE NEW COSTS. HOWEVER, THE POLICY COULD HAVE AN INFLATIONARY IMPACT, BUMP UP THE VALUE OF THE DOLLAR, AND DRAMATICALLY LIMIT THE VOLUME OF SOME CRUCIAL IMPORTED INPUTS. END COMMENT.

